service rather than a "new service" because basic 800 database service replaced the NXX system and did not add to the range of options already available to customers. 145

b. Comments

43. The commenters unanimously support the Commission's tentative conclusion that 888 toll free service is functionally equivalent to 800 toll free service and that Part 69 waivers are not required. Bell Atlantic states that because 888 is not a new service, it will not be filing an incremental cost study or any new rate elements. The tariff, Bell Atlantic notes, will offer 888 access under the same terms, conditions, and rates as existing toll free access service. Most LECs, however, argue that the Commission must act promptly so that tariffs are filed on not less than 45 days' notice. SWBT notes that the LECs' 800 tariffs were filed 32 months ago, and the Commission has yet to complete its investigation of their lawfulness. SNET argues that it is premature to determine that 888 costs be treated in accordance with procedures established for 800 service because the Commission has not yet concluded its investigation of the LECs initial 800 database tariffs. 149

¹⁴³ The <u>LEC Price Cap Order</u> states that "as long as the pre-existing service is still offered, and the range of alternatives available to consumers is increased, we will classify the service as new." 5 FCC Rcd at 6824.

¹⁴⁴ Prior to the implementation of the SMS database, carriers routed 800 traffic using the "NXX system" and did not allow subscribers to toll free service to switch carriers without changing their toll free number. NPRM at para. 4, n. 8. A toll free number such as "800-NXX-XXXX" consists of three parts: (1) a three digit numbering plan area ("NPA") or area code ("800"); (2) a three digit central office code ("NXX"); and (3) a four digit line number ("XXXX"). Id. at para. 3, n. 5. The NXX system assigned blocks of 10,000 numbers to a particular interexchange carrier ("IXC") based on the NXX code in the dialed number. Id. at para. 4, n. 8.

¹⁴⁵ 800 Database Rate Structure Order, 8 FCC Rcd at 911.

¹⁴⁶ See, e.g., Ameritech Comments at 43; Pacific Comments at 18; NYNEX Comments at 11; SNET Comments at 15-16; NYNEX Reply Comments at 6.

¹⁴⁷ Bell Atlantic Comments at 11-12.

¹⁴⁸ SWBT Comments at 21.

¹⁴⁹ SNET Comments at 15-16.

c. Discussion

- 44. We conclude that toll free service using 888 numbers is functionally equivalent to toll free service using 800 numbers and does not require LECs to obtain waivers of Part 69 of the Commission's rules to offer toll free service using the 888 code. The addition of 888 as a toll free SAC simply increases the universe of numbers available for toll free service; it does not add to the range of options already available to customers (i.e., is not a "new" service). Therefore, we do not require LECs to obtain waivers of Part 69 to file 888 database access tariffs.
- 45. LECs will be required to make the necessary revisions to their current 800 database tariffs to reflect that a code other than the 800 SAC will be used for toll free service. We order the LECs to file the tariffs expanding toll free service using the applicable tariff filing provisions. These tariffs must be filed no later than February 1, 1996 with an effective date of March 1, 1996. Carriers that are unable to meet the required notice period will be permitted to request special permission under Section 61.151 of the Commission's rules¹⁵¹ to file on shorter notice only if they can document the reason for their inability to meet the prescribed notice period.¹⁵²

3. Exogenous Costs

a. Background

46. In the 800 Rate Structure Order, the Commission concluded that it was appropriate to allow the LECs to treat as exogenous the costs incurred specifically for the implementation and operation of 800 database services. The Commission, however, did not extend exogenous cost treatment to those costs that were not reasonable and that were not

¹⁵⁰ LEC Price Cap Order, 5 FCC Rcd at 6824.

¹⁵¹ 47 C.F.R. § 61.151. This section prescribes the procedures to be followed by a carrier applying for a waiver of Part 61.

¹⁵² We note that several LECs have already filed revisions for implementing the 888 code on 45 days' notice, effective March 1, 1996. Any revisions to these filings will also require special permission.

¹⁵³ This decision was reached under Section 61.44(c)(5) of the rules, 47 C.F.R. § 61.44(c)(5), pursuant to which the Commission may grant exogenous cost treatment for "other extraordinary exogenous cost changes as the Commission shall permit or require." In their tariffs, LECs were required to make a detailed showing of the costs incurred specifically for the implementation of basic 800 database service and were also required to justify the reasonableness of those costs. 800 Database Rate Structure Order, 8 FCC Rcd at 911.

specifically incurred for the implementation and operation of the 800 database system, such as core SS7 costs. The Commission anticipated that exogenous treatment would be accorded to those costs associated with: Service Control Points ("SCPs"), the Service Management System ("SMS"), and the links between SCPs and the SMS, as well as between Signal Transfer Points ("STPs") and SCPs, to the extent such costs were directly attributable to 800 database service. The Commission reached this decision because of, what the Commission called, "highly unusual circumstances" that stemmed from our finding that provision of 800 service through a database should be mandated because making 800 numbers portable served the public interest. Specifically, the Commission determined that it had effectively required the implementation of 800 database service and dictated the terms, conditions, and schedule for implementing it. Under these circumstances, the Commission concluded that reasonable costs specific to implementation of basic 800 database service were outside the carrier's control and were, therefore, treated as exogenous under price cap regulation. 156

47. In the LEC Price Cap Order, 157 we decided that, in most circumstances, "extraordinary" costs would not be treated as exogenous because such treatment would reduce a carrier's need to be efficient and innovative. 158 In the Price Cap Performance Review for Local Exchange Carriers, 159 we reaffirmed this conclusion and found that the ability to cope with unforeseen events is at least in part a function of a carrier's managerial decisions, and that permitting exogenous treatment for such unforeseen events removes the incentive to operate more efficiently. 160 The Commission, therefore, concluded that extraordinary costs would continue to be treated endogenously in most cases. 161 The Commission, however, did not foreclose the possibility that costs associated with the provision of services required by the Commission, such as occurred when the Commission required that toll free numbers be made portable through the use of an 800 database, may be

¹⁵⁴ Id.

¹⁵⁵ Id.

¹⁵⁶ Id.

¹⁵⁷ LEC Price Cap Order, 5 FCC Rcd 6786.

¹⁵⁸ Id.

¹⁵⁹ Price Cap Performance Review for Local Exchange Carriers, First Report and Order, 10 FCC Rcd 8961, 9094 (1995).

¹⁶⁰ Id.

¹⁶¹ Id.

treated as exogenous in the future. 162

b. <u>Comments</u>

48. The LECs generally argue that the costs of implementing 888 should be treated as exogenous because it is consistent with the treatment given the costs associated with implementation of the 800 database. 163 NYNEX states that to the extent that existing price cap rules are revised as part of ongoing proceedings, the Commission should ensure that there remains some mechanism for recovery of these costs under price caps. 164 NYNEX argues that incremental exogenous costs should be allowed for implementing 888. It asserts that implementation of 888 has not been a trivial exercise. Further, NYNEX asserts that growth in toll free numbers in working status has far exceeded the growth in the number of toll free calls and, thus, the number of queries to the toll free database. 165 BellSouth agrees that 888 is functionally equivalent to 800 and thus, the costs of implementing 888 should be treated as exogenous to the extent certain 800 database costs receive such treatment. BellSouth states that it will develop rates by identifying and annualizing these exogenous costs. BellSouth asserts that it will determine how much its proposed toll free database access rates will increase by forecasting the number of toll free database queries applicable to the study period and then computing the ratio of exogenous costs over forecasted database queries or exogenous costs per forecasted database query. Using this ratio and increasing it by an appropriate overhead loading, BellSouth plans to produce a basic toll free service rate increment that will then be added to the existing toll free query rate. 166 U S West, using its projected costs of implementing 888 and extrapolating based on U S West's percentage of the total access lines and switches in the entire LEC industry, estimates that the LEC industry as a whole has spent between \$170 to \$250 million to implement 888.167 Pacific argues that tandem upgrades and SSP costs -- as well as all other costs associated with the mandated deployment of toll free service -- should be considered exogenous costs because the Commission has determined that certain costs incurred by the LECs caused by administrative, legislative, or judicial requirements beyond their control should result in an adjustment to their price caps. 168

¹⁶² Id. at 9094, n. 575.

¹⁶³ See, e.g., BellSouth Comments at 19.

¹⁶⁴ NYNEX Reply Comments at 6-7.

¹⁶⁵ See, e.g, NYNEX Comments at 11.

¹⁶⁶ BellSouth Comments at 19-20.

¹⁶⁷ U S West Reply Comments at 8.

¹⁶⁸ Pacific Reply Comments at 9 (citing <u>LEC Price Cap Order</u>, 5 FCC Rcd at 6807).

c. Discussion

- 49. We conclude that the costs associated with the implementation of 888 should not be treated as exogenous costs. The 800 Rate Structure Order found that 800 database services were restructured services. Exogenous cost treatment for those costs specific to 800 database services was granted because of what the Commission termed "highly unusual circumstances." Specifically, the Commission mandated that toll free service providers make use of a toll free database so that toll free numbers would be made portable. The Commission, therefore, allowed LECs to increase their query rates so that the costs of establishing the 800 toll free database were included as a component in query rates. case of 888, network upgrades have been required as a result of the rapid increase in the demand and use of toll free services and are thus attributable to the need for increased network capacity caused by increased usage. While the exhaustion of the supply of 800 numbers may be a special event, the Price Cap Order indicates that this alone does not justify exogenous cost treatment. Allowing an additional increase to these per-query charges, as suggested by BellSouth, would thus, in essence, constitute return to rate of return regulation, which price cap regulation has supplanted for many of the larger carriers. We do, however, note that those carriers currently regulated under rate of return regulation will be allowed to recover their costs incurred as a result of the introduction of 888 as a toll free SAC.
- 50. The LECs' principle argument for exogenous cost treatment is that implementation of 888 has been costly and that these costs are beyond their control because the Commission mandated the deployment of toll free service. The Commission has, however, concluded that costs beyond a carrier's control will generally not be treated as exogenous. As discussed above, the addition of the 888 SAC to the universe of toll free numbers is the result of the rapid growth in the demand for toll free numbers and is not directly attributable to the Commission's directive that carriers restructure toll free services by making toll free numbers portable. 169
- 51. Noting that the average number of queries per toll free number has decreased, the LECs appear to argue that because RespOrgs and other carriers reserve the majority of toll free numbers and, thus, control to whom toll free numbers are assigned, the decrease in average number of queries per number is beyond LEC control. The Commission has stated that the burden to justify exogenous cost treatment lies with the carrier being regulated under price caps. Even if the LECs could establish that the decrease in query rates is beyond their control, which they fail to do, the fact that this lay beyond their control would not, by itself, justify exogenous cost treatment. As we have noted, the Commission has found that permitting exogenous cost treatment for unforeseen events removes the carriers' incentive to operate more efficiently and that the ability to cope with such events is at least in part a function of carriers' managerial decisions. The Commission, therefore, concluded that we

¹⁶⁹ Price Cap Performance Review for Local Exchange Carriers, 10 FCC Rcd at 9094, n. 575.

should continue to treat costs that are beyond carriers' control endogenously in most cases. 170

52. The LECs have failed to show why we should depart from this general rule and treat the addition of the 888 SAC to the universe of toll free numbers as an "extraordinary" event for which they should be allowed to treat its costs as exogenous. We, therefore, conclude that costs associated with the implementation of 888 will not be treated as exogenous for carriers regulated by price caps.

4. Interim Arrangements

a. Comments

Ameritech and NYNEX assert that they plan initially to route all 888 traffic through access tandems using an advanced intelligent network ("AIN") design. Ameritech and NYNEX are currently upgrading their network to have AIN capabilities at the access tandems and plan to add this capacity at their end offices once their access tandems are equipped with this capacity. When a toll free call is routed through an access tandem, however, the IXC is charged for using both the access tandem and the end office. The use of access tandems to process interstate toll free dialing calls would, therefore, increase an IXC's access charges. Ameritech and NYNEX argue that they should be allowed the flexibility to charge end-office rates to IXCs that currently have access from end-offices connected directly to the SCP for 800 service. Ameritech and NYNEX propose that they issue credits to these IXCs equal to the additional charge they incur for routing all 888 calls through an access tandem because these IXCs would have chosen to, and could have, routed these calls from the LECs' end offices directly to the SCP if this option were made available by the LECs. NYNEX argues that the issuing of credits is necessary to reduce the economic impact that such network upgrades might have on its toll free service-provider customers. 171 Scherers states that its tariffs are not dependent upon a dedicated toll free code and will be the same for 888 as 800 and that LECs should be asked to retain the same rates for toll free service, regardless of the number assigned.¹⁷²

b. Discussion

54. We agree that the issuing of credits for tandem charges so that the cost of toll free access equals what the IXC would be charged if direct routing from the end office were available for 888 is reasonable because it reduces the economic effect the LECs' network upgrades will impose on their 888 access customers. As noted by the commenters, access from an end office directly connected to the 888 SCP is considered to be more efficient for

¹⁷⁰ **Id**.

¹⁷¹ NYNEX Comments at 7 and 11; Ameritech Comments at 44.

¹⁷² Scherers Comments at 21; TRA Comments at 22.

those customers already receiving access to the 800 SCPs directly from that end office than access through the tandem. The LECs' plans to offer credits to their access customers forced to route 888 traffic through the LECs' access tandems gives these LECs the incentive to make direct access from the end office available as quickly as possible. We consider these arrangements to be temporary and will subject these interim arrangements to periodic review. We also require that these LECs offer their credit plan to any access customer that obtains access from the end office connected directly to the SCP for 800 toll free service if that customer must use the LECs' interim access tandem arrangement for 888 service because the LECs have not completed their network upgrades.

D. DIRECTORY ASSISTANCE

1. Background

55. In 1989, the Commission concluded that 800 Directory Assistance ("DA") should be open to competition. On May 8, 1995, SNET filed a petition for declaratory ruling asking the Commission to require AT&T to enter into reciprocal compensation arrangements with other carriers that wish to offer 800 DA. In the NPRM, the Commission determined that, while SNET's petition is related to this proceeding, it would defer consideration of the petition. The NPRM sought comment on a proposal to combine 800 DA, 888 DA, and subsequent toll free DA codes into an interchangeable toll free DA service. With such an interchangebale toll free DA service, callers would be able to dial either "1-800-555-1212" or "1-888-555-1212" and obtain DA for all toll free numbers. Specifically, commenters were asked to address the economic reasonableness and technical feasibility of combining the provision of toll free DA. Commenters were also asked to address a proposal to not assign "888-555-1212," until toll free DA issues, such as SNET's petition, had been resolved. The commenters were asked to address the economic reasonable per solved.

2. Comments

56. Commenters addressing this issue generally support the Commission's proposal to open toll free DA to competition and agree that "888-555-1212" should be used for toll free DA. There was also wide support for withholding the assignment of "888-555-1212"

¹⁷³ See Provision of Acces for 800 Service, 4 FCC Rcd 2824 (1989) ("800 Order"), recon., 6 FCC Rcd 5421 (1991) ("800 Reconsideration Order"), further recon., 8 FCC Rcd 1038 (1993).

¹⁷⁴ See NPRM at para. 46, n. 90.

¹⁷⁵ NPRM at para. 48.

¹⁷⁶ See, e.g., Pacific Comments at 15; BellSouth Comments at 21; Telco Planning, Inc. ("Telco Planning") Comments at 6.

until all issues related to toll free DA have been resolved.¹⁷⁷ Airtouch notes that there is strong support for opening toll free DA service to competition, but that the suggestions on how this should be implemented lack the detail necessary for the Commission to make an informed decision on how to proceed. AirTouch, therefore, suggests that the Commission refrain from promulgating rules affecting the market structure for toll free DA until a more concrete plan can be developed.¹⁷⁸ BellSouth suggests that additional study is required to identify any technological constraints that might prevent the implementation of a combined offering of toll free DA envisioned by the Commission.¹⁷⁹ AirTouch argues that AT&T's management of the 800 DA service should be eliminated, while Allnet argues that "888-555-1212" should be auctioned to someone other than AT&T.¹⁸¹

3. Discussion

57. Many commenters assert that the comments addressing how competition in the market for toll free DA should be implemented lack the detail necessary for the Commission to make an informed decision on this matter at this time. We agree. Moreover, it is not essential that we resolve this issue now in order to enable toll free service using 888 numbers to become available. Consequently, this Report and Order refrains from addressing the steps the Commission could take to foster a competitive market for toll free DA service. The Commission will address this issue in a subsequent decision. We also agree with the commenters who recommend that "888-555-1212" be set aside until issues related to a competitive toll free DA are resolved. We note, however, that more than one number in the 888 SAC could be used for toll free DA in a competitive market; "555" NXXs are generally associated with DA and information services. Therefore, we order DSMI to place all "888-555-XXXX" numbers in unavailable status so no RespOrg can reserve these numbers until the Commission has reached a decision on the issues raised in the NPRM related to the development of a competitive toll free DA service.

IV. CONCLUSION

58. This Report and Order addresses only those issues essential to the scheduled March 1, 1996 deployment of the 888 SAC. First, we provide interim protection for all equivalent 888 numbers designated by current commercial 800 subscribers by setting those numbers aside during the initial 888 reservation period. At this time, we do not decide

¹⁷⁷ See, e.g., SNET Comments at 12-14; NYNEX Comments at 10.

¹⁷⁸ AirTouch Reply Comments at 12.

¹⁷⁹ BellSouth Comments at 21.

¹⁸⁰ AirTouch Comments at 18.

¹⁸¹ Allnet Comments at 10.

whether these numbers ultimately should be afforded any permanent special right or protection. Second, we conclude that the current first come, first served reservation policy should apply to 888 numbers, subject to the limitations set forth in this **Report and Order**. Third, we conclude that the current 800 number conservation plan, subject to the modifications set forth in this **Report and Order**, should be continued for a limited period of time. Fourth, we determine that reservations for 888 numbers, other than those numbers designated for interim protection by existing 800 subscribers, shall begin at 12:01 A.M. Eastern Standard Time, February 10, 1996. Fifth, we adopt an 888 conservation plan to both prevent an SMS database overload and discourage a "gold rush" approach to 888 number reservations. Finally, we conclude that, for tariffing purposes, 888 service should be treated like 800 service and that the associated investment and expenses of carriers regulated by price caps should not be given exogenous cost treatment. Additional issues addressed by the NPRM in this docket will be resolved in a subsequent decision.

V. ORDERING CLAUSES

- 59. Accordingly, IT IS ORDERED that, pursuant to authority contained in Sections 1, 4, 5, and 201-205 of the Communications Act of 1934, as amended, 47 U.S.C. §§ 151, 154, 155, and 201-205, Section 0.201(d) of the Commission's rules, 47 C.F.R. § 0.201(d), this Report and Order is hereby ADOPTED.
- **60.** IT IS FURTHER ORDERED that, pursuant to 5 U.S.C. § 554(d) and 47 C.F.R. § 1.103(a), this Report and Order shall take effect upon adoption. ¹⁸²

Federal Communications Commission

Regina M. Keeney

Regina M. Keeney

Chief

Common Carrier Bureau

Preventing shutdown of the toll free reservation process and ensuring that toll free numbers remain available to the public constitute good cause for making this <u>Report and Order</u> effective upon adoption.

Appendix A List of Commenters

1.800.BALLOON 1-800-FLOWERS 800 Users Coalition Aeronautical Radio, Inc. ("ARINC") AirTouch Paging ("AirTouch") Allnet Communication Services, Inc. ("Allnet") Ameritech American Car Rental Association ("ACRA") American Petroleum Institute ("API") American Telegram Corporation ("ATC") Americas Carrier Telecommunications Association ("ACTA") AT&T Corporation ("AT&T") AVIS Rent A Car System, Inc. ("Avis") Bass Pro Shops ("Bass Pro") Bass Tickets, Inc. ("Bass Tickets") Bell Atlantic Telephone Companies ("Bell Atlantic") BellSouth Telecommunications, Inc. ("BellSouth") Cable & Wireless, Inc. ("CWI") Charter Medical Corporation ("Charter Medical") Communications Managers Association ("CMA") Communications Venture Services, Inc. ("CVS") Competitive Telecommunications Association ("CompTel") Crestar Bank ("Crestar") DeFabio, Joel ("Joel DeFabio") Del Webb Corporation ("Del Webb") Direct Marketing Association ("DMA") Enterprise Rent-A-Car, Inc. ("Enterprise") General Services Administration ("GSA") GTE Service Corporation ("GTE") INVESCO Funds Group, Inc. ("IFG") LCI, International ("LCI") LDDS WorldCom ("LDDS") MCI Telecommunications Corporation ("MCI") MFS Communications Company, Inc. ("MFS") National Telephone Cooperative Association ("NTCA") NEXTLINK, Inc. ("NEXTLINK") Network Telephone Services, Inc. ("NTS") NIMA, International ("NIMA")

Nissan Rosenthal ("Nissan")

NYNEX Telephone Companies ("NYNEX")

Olson, Mark D. ("Mark Olson")

Organization for the Protection and Advancement of Small Telephone Companies ("OPASTCO")

Pacific Bell and Nevada Bell ("Pacific")

Page, Joseph Edward ("Joseph Page")

Paging Network, Inc. ("PageNet")

Personal Communications Industry Association ("PCIA")

Promoline, Inc. ("Promoline")

Puerto Rico Telephone Company ("PRTC")

Qwest Communications Corporation ("Qwest")

Scherers Communications Group, Inc. ("Scherers")

Service Management System/800 Number Administration Committee of the Ordering and Billing Forum ("SNAC")

Service Merchandise Company, Inc. ("Service Merchandise")

Southern New England Telephone Company ("SNET")

Southwestern Bell Telephone Company ("SWBT")

Sprint Corporation ("Sprint")

Telecommunications Resellers Association ("TRA")

Telecompute Corporation ("Telecompute")

Telemation International, Inc. ("Telemation")

Telephone Express

Telco Planning, Inc. ("Telco Planning")

Time Warner Communications Holdings, Inc. ("Time Warner")

TLDP Communications, Inc. ("TLDP")

Vanity International

World Savings and Loan Association ("World Savings")

Weather Channel, Inc. ("Weather Channel")

Wise Telecommunications ("Wise")

United States Telephone Association ("USTA")

Unitel Communications, Inc. ("Unitel")

U S West Communications, Inc. ("U S West")

List of Reply Commenters

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1-800-FLOWERS
American Automobile Association ("AAA")
AirTouch Paging and Arch Communications Group ("AirTouch")
Ameritech
AT&T Corporation ("AT&T")
Austin, John ("John Austin")
Bass Pro Shops ("Bass Pro")
BellSouth Telecommunications, Inc. ("BellSouth")
British Airways Plc ("British Airways")
Cable & Wireless, Inc. ("CWI")
Communications Venture Services, Inc. ("CVS")
Competitive Telecommunications Association ("CompTel")
Dial 800, L.P. ("Dial 800")
Eastern Tel Long Distance Service, Inc. ("Eastern Tel")
Enterprise Rent-A-Car, Inc. ("Enterprise")
General Communication, Inc. ("GCI")
General Services Administration ("GSA")
GTE Service Corporation ("GTE")
Interactive CallBrand ("CallBrand")
LDDS WorldCom ("LDDS")
MCI Telecommunications Corporation ("MCI")
MFS Communications Company ("MFS")
National Telephone Cooperative Association (NTCA")
New York Clearing House Association ("New York Clearing House")
NYNEX Telephone Companies ("NYNEX")
Pacific Bell and Nevada Bell ("Pacific")
Paging Network, Inc. ("PageNet")
Personal Communications Industry Association ("PCIA")
Promoline, Inc. ("Promoline")
Owest Communications Corporation ("Qwest")
Scherers Communications Group, Inc. ("Scherers")
Southwestern Bell Telephone Company ("SWBT")
Sprint Corporation ("Sprint")
Telecommunications Resellers Association ("TRA")
TLDP Communications, Inc. ("TLDP")
United States Telephone Association ("USTA")
U S West Communications, Inc. ("U S West")
Vanity International
Weather Channel, Inc. ("Weather Channel")
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